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AT&T

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JUN 13 1994

June 13, 1994

William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, N.W. - Room 222
Washington, D. C. 20554

Re: Ex Parte Filing in Docket 93-197
Policy and Rules Concerning Rates for Competitive Common Carrier Services and Facilities Authorizations Therefor.

Dear Mr. Caton:

On Monday, June 13, 1994, I provided the attached document to David Nall of the Common Carrier Bureau in connection with the above cited proceeding.

Two copies of this Notice were submitted to the Secretary of the FCC in accordance with Section 1.1206(a)(1) of the Commission's Rules.

Sincerely,

Charles L. Ward

Attachment

Copy to:

D. Nall
D. Grosh
S. Friedman

No. of Copies rec'd 0+1
List ABCDE

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June 13, 1994

David A. Nall
Acting Chief, Tariff Division
Common Carrier Bureau
Federal Communications Commission
1919 M Street, N.W., Room 518
Washington, D. C. 20554

Re: Revisions to Price Cap Rules
for AT&T, CC Docket No. 93-197

Dear Mr. Nall:

Almost eight months ago, the Commission concluded the formal pleading cycle on its proposal in this docket to streamline regulation of AT&T's optional calling plans ("OCPs") and to remove those plans -- but not other AT&T residential services -- from price cap Basket 1. The Commission had suggested this piecemeal streamlining based on its tentative conclusion that OCPs are subject to more intense competition than basic schedule rates, and that removing OCPs from the basket thus would target productivity gains to the basic schedule. Additionally, the Commission sought comment on whether to streamline AT&T's Commercial Long Distance ("CLD") service, also contained in Basket 1.

AT&T's Comments showed that CLD is fully as competitive as other outbound business services that the Commission has already streamlined, and thus should be accorded equivalent regulatory treatment. AT&T also demonstrated that the Commission's underlying assumptions about the relative competitiveness of OCPs and other Basket 1 services (including, in particular, basic schedule rates) was fundamentally flawed, and that there is no basis for disparate regulation of any of AT&T's residential services. As described below, events since then have only further confirmed that there is no justification for selectively streamlining residential services in Basket 1.

AT&T's Reply Comments in this proceeding again showed that there is no basis for distinguishing between the competitiveness -- and, therefore, the regulatory treatment -- of residential OCPs and basic schedule rates. As noted there (pp. 9-10), between the inception of price cap regulation in 1989 and mid-1993, the service band index ("SBI") for the ReachOut category declined by a comparable amount to the SBI for domestic evening MTS rates. Further, AT&T showed (id.) that the SBI for ReachOut was actually priced proportionately closer to its upper band limit, compared to the SBI for domestic night/weekend service with respect to that category's upper limit. These historic relationships belie the assertion that basic schedules rates are less competitive than OCPs. AT&T's price cap indices continue to underscore the correctness of this point.

Recent marketplace developments further confirm the full competitiveness of all of AT&T's residential services. Specifically, since March 1993 AT&T has introduced two calling discounts that offer substantial price reductions to basic schedule customers. The first of these offerings, marketed as "Simple Savings," provides customers enrolled in that offering a 25% discount from basic schedule rates for calls completed to one domestic NPA designated by the subscriber, and a 15% discount for calls to all other domestic NPAs in each month the customer's usage is $30 or higher. The second offering, marketed as "True USA," provides enrolled customers a discount of 10%, if their monthly charges are over $10, and a discount of 20%, if the subscriber's monthly charges are over $25. Additionally, as of July 1 True USA will further provide customers with a discount of 30% if their monthly charges exceed $75.

These competitive discount offerings to basic schedule customers graphically demonstrate that the Commission's premise concerning the intensity of competition for this market segment is simply wrong. Rather, these tariffs are further evidence that all Basket 1 services face intense marketplace competition, and thus should be subject to immediate streamlining.

The Commission purposely constructed the price cap baskets by grouping services to provide AT&T flexibility in responding to competition, while avoiding potential cross-subsidization. Partial streamlining of the residential services in Basket 1, particularly the subset of AT&T's OCPs, will paradoxically reduce AT&T's flexibility to respond in the competitive residential market, contrary to the Commission's original intent in adopting price caps. Because the competitive forces facing both residential OCPs and other residential services are the same, it would be unreasonable for the Commission to artificially segment the market, streamlining one and not the other.

AT&T believes the record is compelling that CLD service and the rest of Basket 1, including both residential OCPs and basic schedule rates, should be streamlined. The Commission should promptly issue such an order in this proceeding. In the alternative, the Commission should streamline CLD in this docket and address streamlining of AT&T's Basket 1 residential services in CC Docket 79-252 concerning AT&T's non-dominance petition. In any event, the decision on whether to streamline residential Basket 1 services should be made in an integrated manner, not by singling out certain residential services for special regulatory treatment.

Very truly yours,

Charles h. Ward

Cs

cc: Dan Grosh
Suzan Friedman